

# Education Discussion

Board Retreat  
1.27.2021



# Overview

## Purpose:

Provide background information for a discussion on the County's funding for education



## 1. Comparisons to Other Counties



## 2. Funding For Education



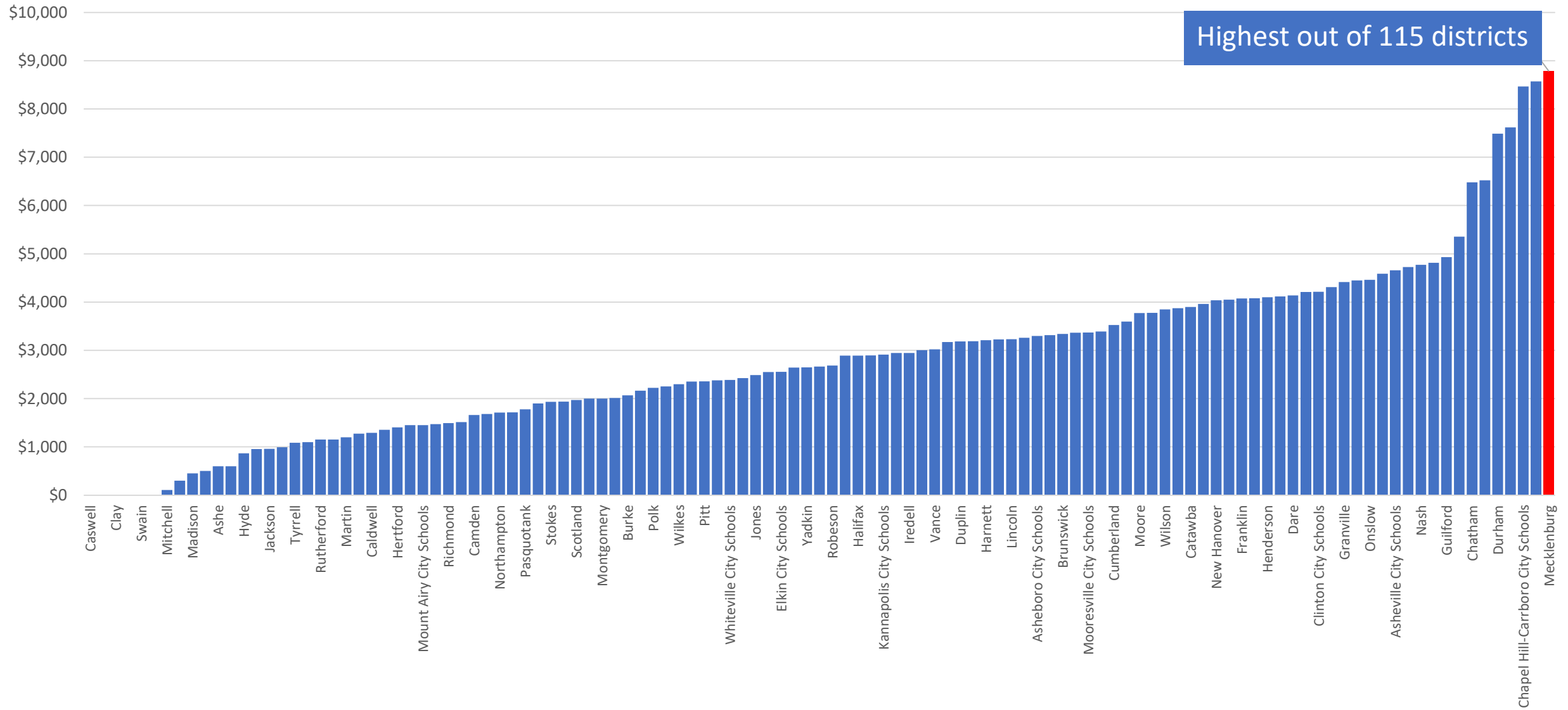
## 3. Options for Influencing Education Policy

A close-up photograph showing two hands holding fruit against a dark background. The left hand holds a whole, bright orange, and the right hand holds a whole, shiny red apple. The hands are positioned so that the fruits are side-by-side, creating a direct comparison. The word "Comparisons" is written in white, sans-serif font, centered over the space between the two fruits.

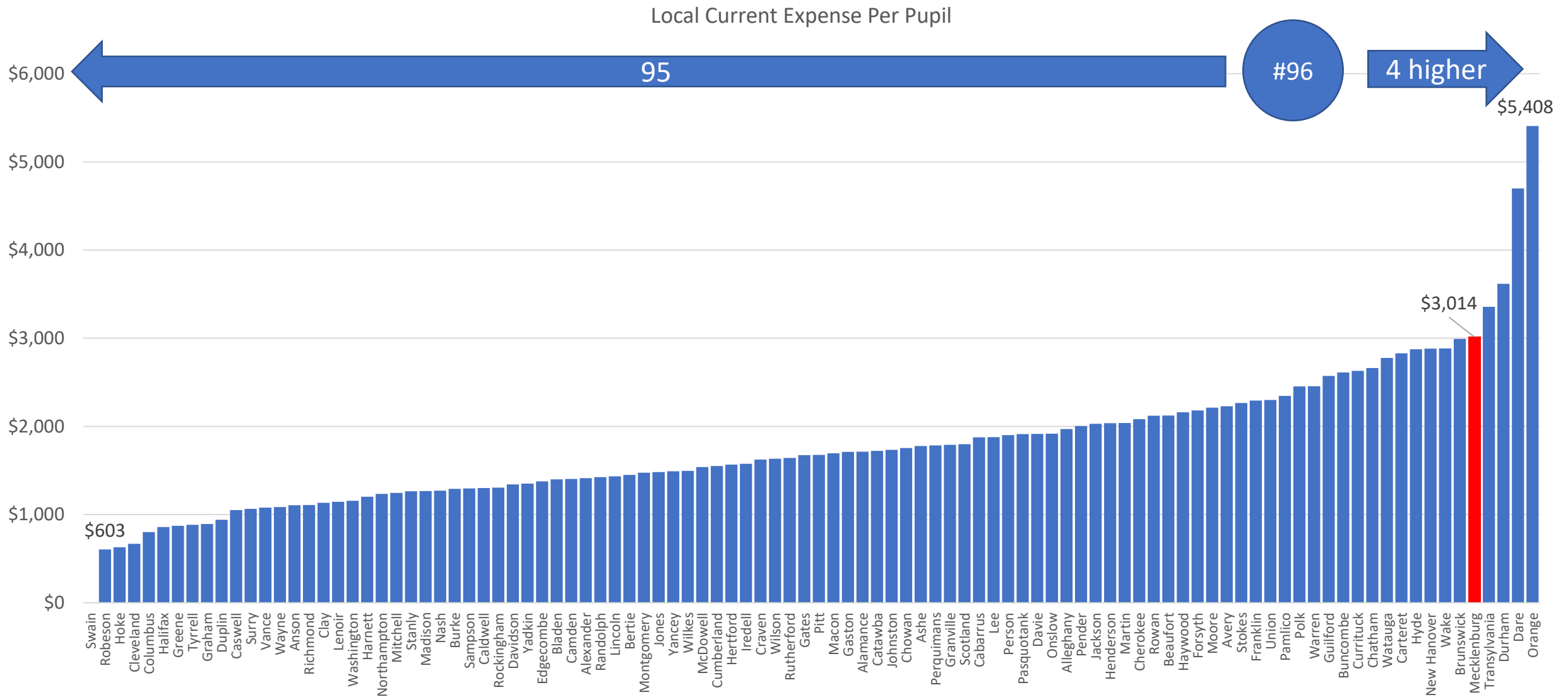
Comparisons

# Compared to Other Counties

Average Locally Funded Teacher Salary Supplement

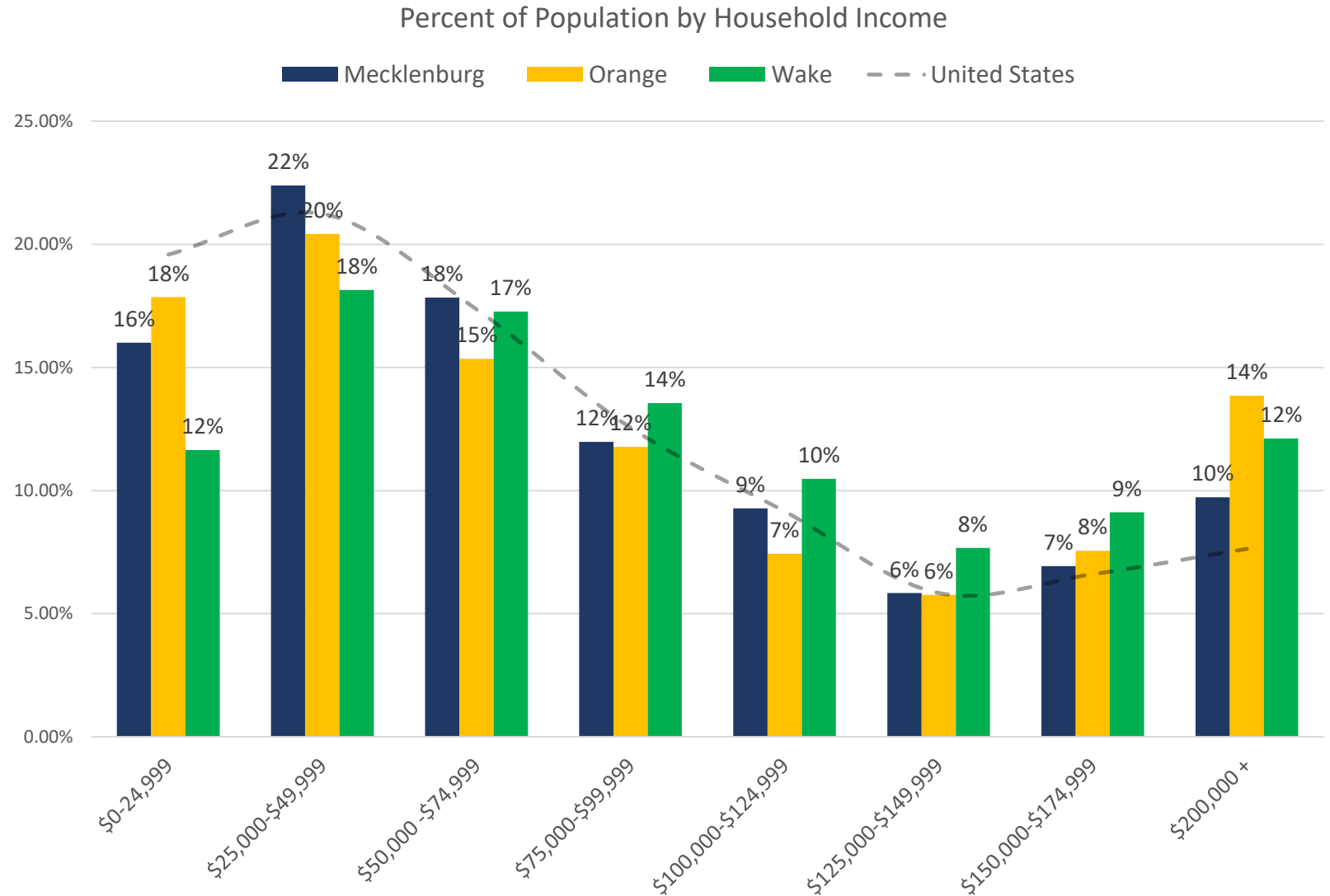


# Compared to Other Counties



# Comparisons Do Not Tell the Whole Story

- Counties are very different in the services they provide (ex. Parks & Courts)
- Property taxes have and impact all economic sectors of the community
- Wealth and poverty is distributed differently in different communities
- For Mecklenburg to fund the same per-pupil as Orange County (\$5,408)
  - An additional \$406.8M
  - An additional 21.69¢ tax rate
  - \$542 on a \$250K home
  - A total tax rate of 83.38¢
  - \$2,085 on a \$250K home







# Funding for Education

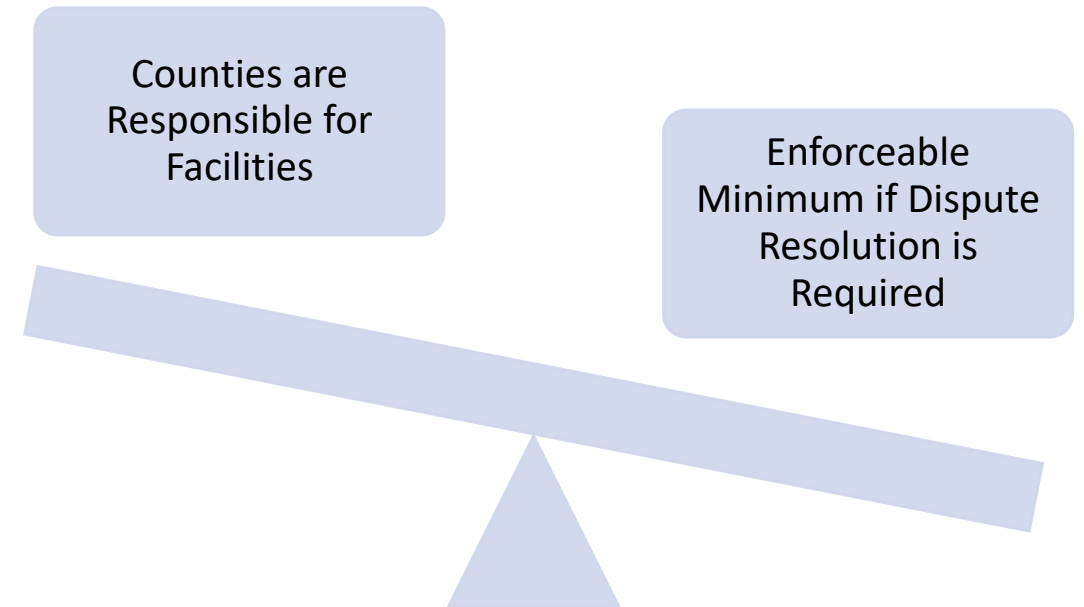
# Fund Responsibility Vs. Enforceable Minimum?

- Does the County exceed it's responsibility to fund the cost of providing educational facilities<sup>1</sup>?

Yes - by a lot

- What is ultimately enforceable if the County and the school entered into a dispute resolution and an agreement was not reached through mediation<sup>2</sup>?

**More than just facilities** – under this scenario minimum funding would be based on prior year funding, Average Daily Membership (ADM), and wage inflation



1 - See North Carolina General Statute 115C -408 (b)

2 - See North Carolina General Statute 115C -431 (b1)



# Dispute Resolution Outcome

If the Board of Education pursues dispute resolution and mediation does not work, funding is determined as follows:

- Prior year actuals  $\div$  Average Daily Members (ADM)  $+$  charter school membership
- $\times$  (1  $+$  Annual Change in Employment Cost Index for elementary and secondary school workers- FBLS)
- $\times$  new year allotted ADM  $+$  charter school membership

If the calculation has been used for the prior 2 years, then the change in employment cost index is increased by 3%

# Average Daily Membership

- Average daily membership (ADM) – Number of days that a student's name is on the roll (regardless of being present) divided by days in a school month
  - Students with 10 consecutive absences are in violation and excluded from membership
  - Measure over time is more accurate than enrollment which is a single point-in-time snap-shot
- Initial ADM allotment is set by the State as the higher of the projected, or first two months of the prior year
- Initial ADM allotment is increased or decreased if it is off by 2% based on first two months
- **The State held school allotments harmless for dropping ADM for FY2021 (H.B.1105)**
- Teachers received \$350 bonus in FY2021 (S.B.818)

## State \$ by ADM

### Positions Allotments

- Allocated number and type of positions
- School pays according to state salary schedule
- Not limited to a specific dollar amount

### Dollar Allotments

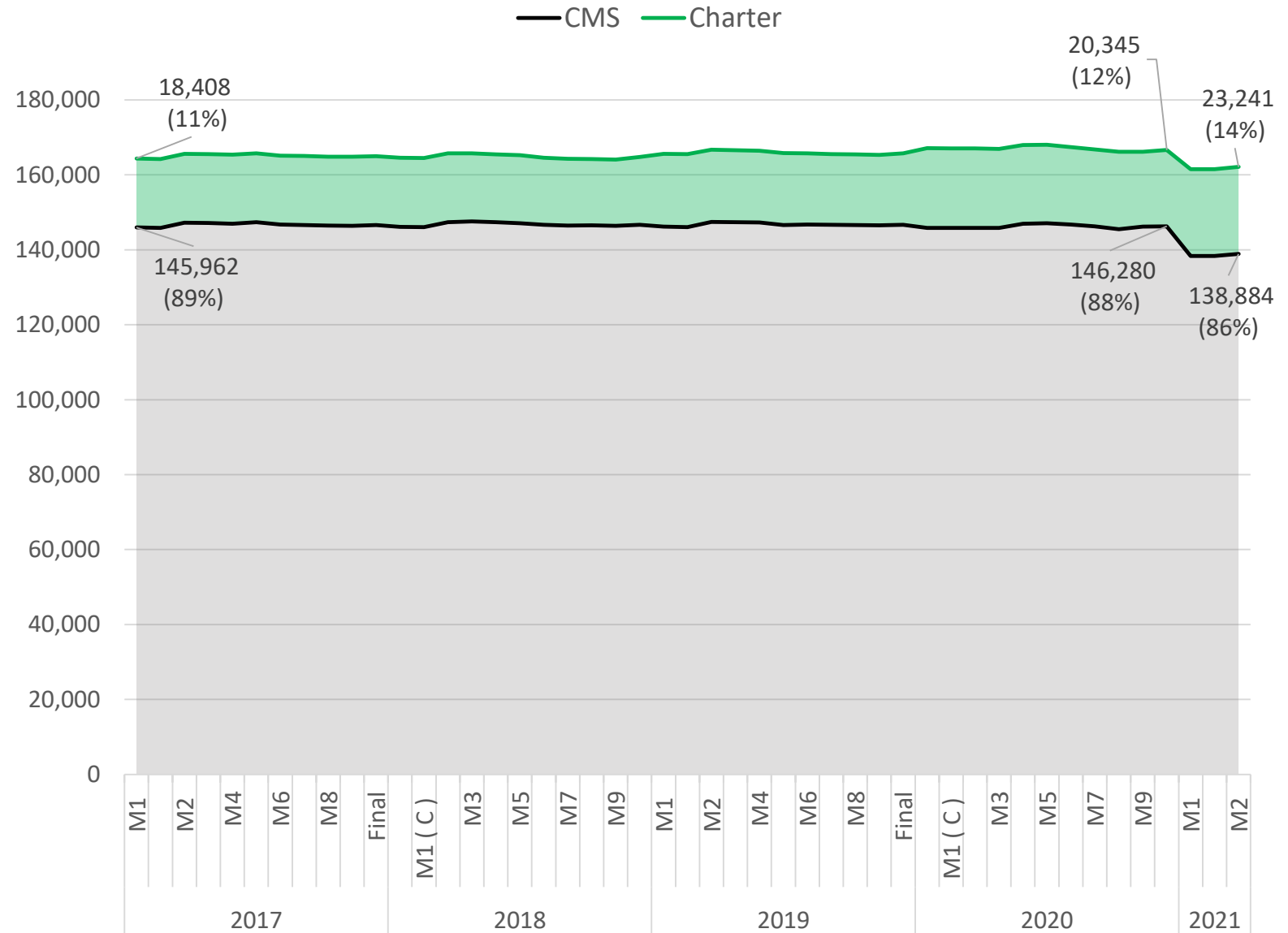
- Non-certified employees
- Purchase goods (Textbooks, supplies, resources etc.)
- Must operate within a specific dollar amount

### Categorical

- For special populations
- Must operate within the allotted funds

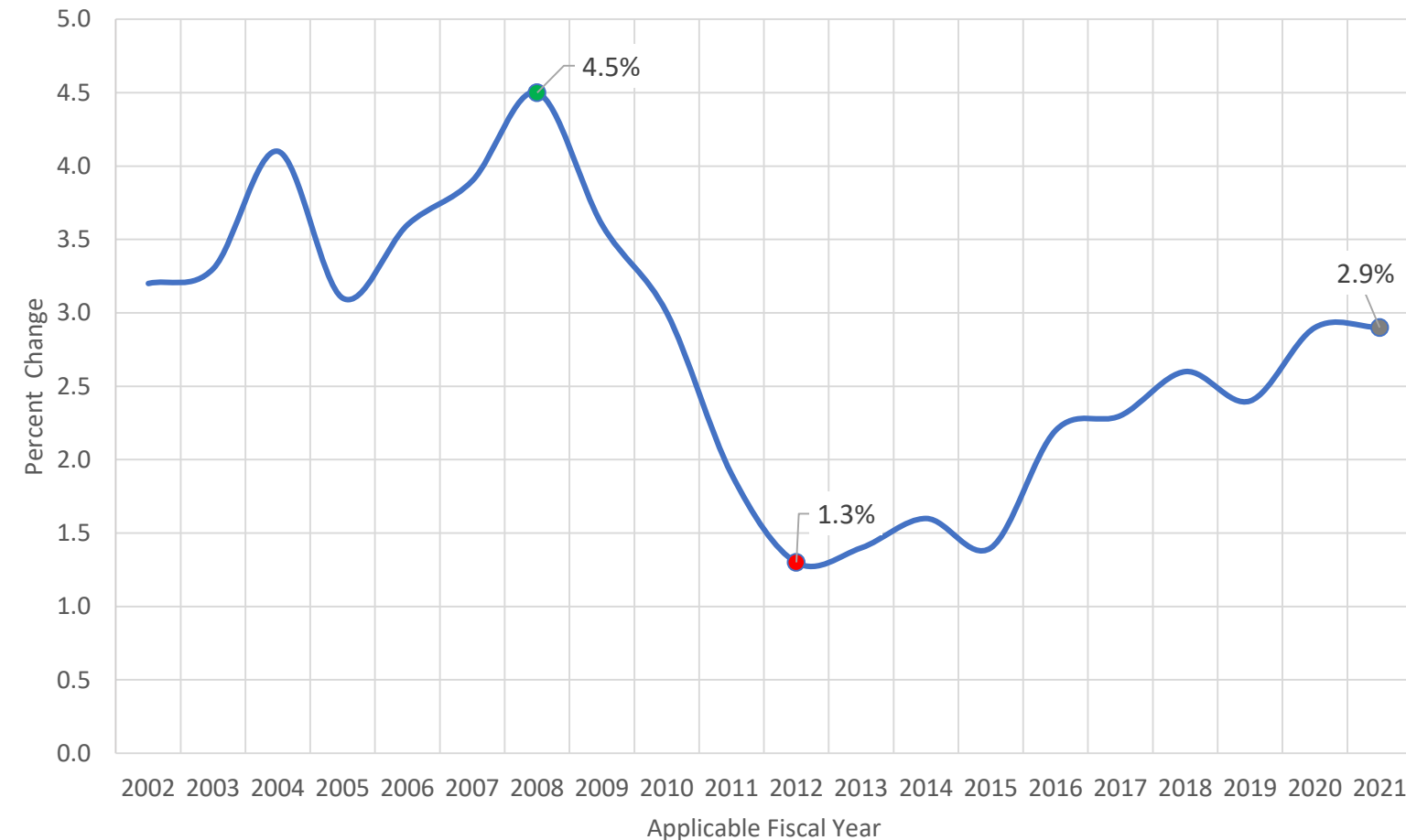
# Average Daily Membership

- Charter School membership has grown as a percent of combined enrollment
  - 11% in 2017
  - 14% today
- Average Daily Membership (ADM) for CMS has dropped by **-7,396** since last school year
- Charters in Mecklenburg County have increased by 2,896
- Net decrease of **-4,500**
- Private and homeschools may account for some of the missing pupils (tracked annually)
  - Private: 18,378 in FY2020
  - Home: 11,148 in FY2020
- Implication for State funding for FY2022 is unknown



# Employee Cost Index for Elementary and Secondary Schools

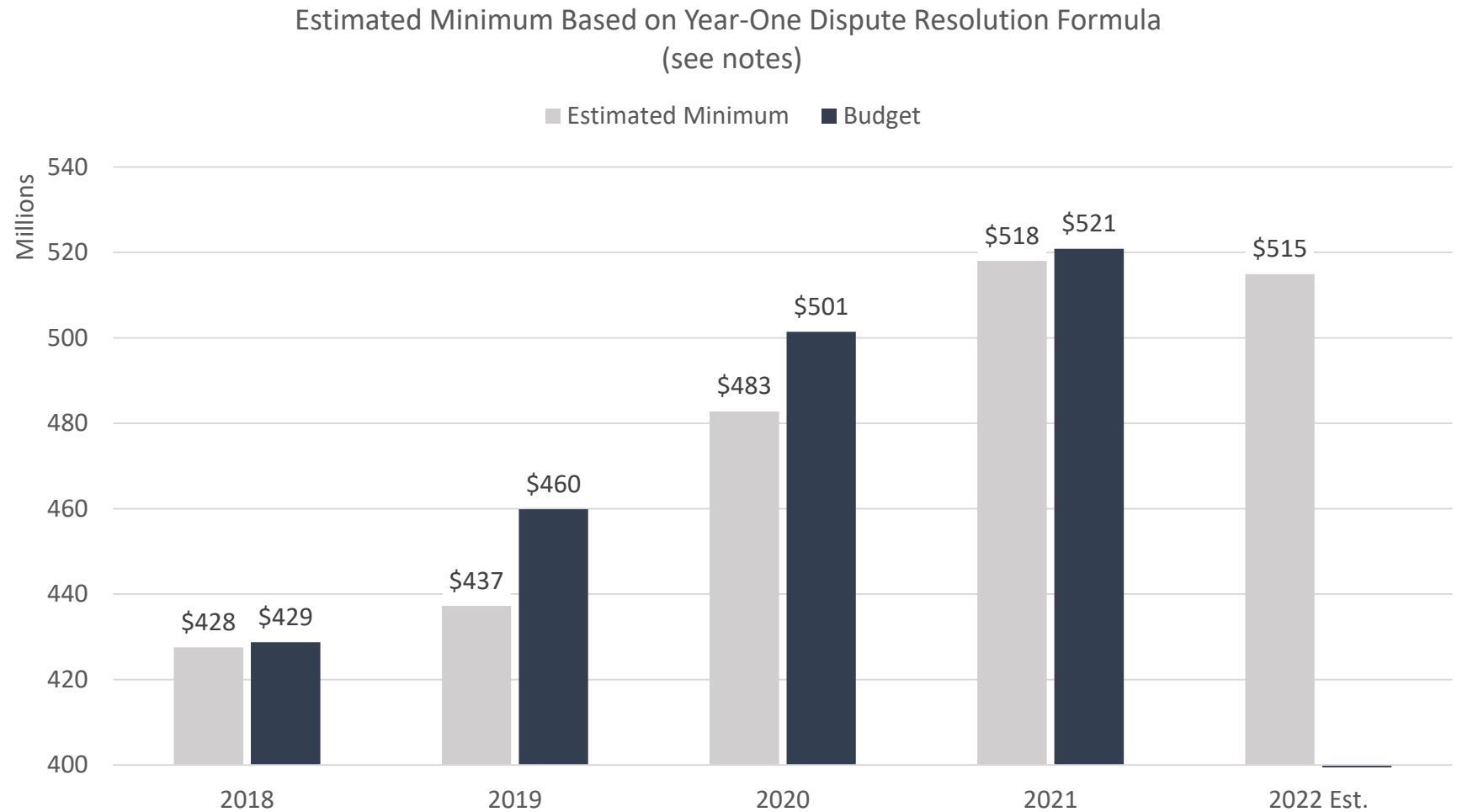
12 Month Percent Change in Employee Cost Index for Total Compensation for Elementary and Secondary Schools at Q2



- Bureau of Labor Statistics economic indicator that measures changes in the cost of employees to employers overtime
- Factors salaries and benefits
- Calculated by industry
- 4.5% in FY2008 (2007) was the highest
- 1.3% in FY2012 was the lowest
- 2.9% was FY2021
- 2.8% - 20-year average
- 2.8% increase to current funding is \$15M

# Estimated Minimum Based on Dispute Resolution Formula

- On average, for 2018 – 2021 the County exceeded the estimate by \$11.3M annually
- FY2021 ADM approved allotment is likely overstated
- Estimate for FY2022 would be **-\$5M** if current trends hold
  - +\$15M Escalation
  - **-\$20M** due to ADM
- When ADM returns to normal, cost would increase offsetting any reduction



Notes: Estimated minimum is based on State ADM allotments and assumes that County funding is fully utilized by CMS. Attendance in out-of-County Charters or virtual charters by Mecklenburg residents is not recorded by the State but reported by CMS. In FY2021, charter schools have experienced a 12.2% increase since February of 2020. In addition, a significant drop in CMS ADM occurred in 2021, and the ADM allocation for FY2021 is likely overstated. The state passed legislation holding schools harmless for falling ADM in FY2021. The estimate above for FY2022 is based upon September ADM and may be under-represented by membership in completely virtual charter schools.



# Dispute Resolution Caveats

- **Untested** – Prior to FY2018 litigated disputes were common, but since the statutes were revised no County has entered dispute resolution which would test the formula
- Results can be estimated, but should be **viewed with caution**
  - Final figures cannot be known until after June
  - Small changes in ADM or Employee Cost Index have large impact on results
- The dispute resolution formula is intended to ensure escalated funding for schools over the prior year unless there is significant reduction in the number of pupils
- Calculation is based on a single year, regardless of whether funding was over or under the minimum in the prior year
- More funding in one year will make the minimum threshold higher in future years

# How Much Are We Required to Pay CMS?

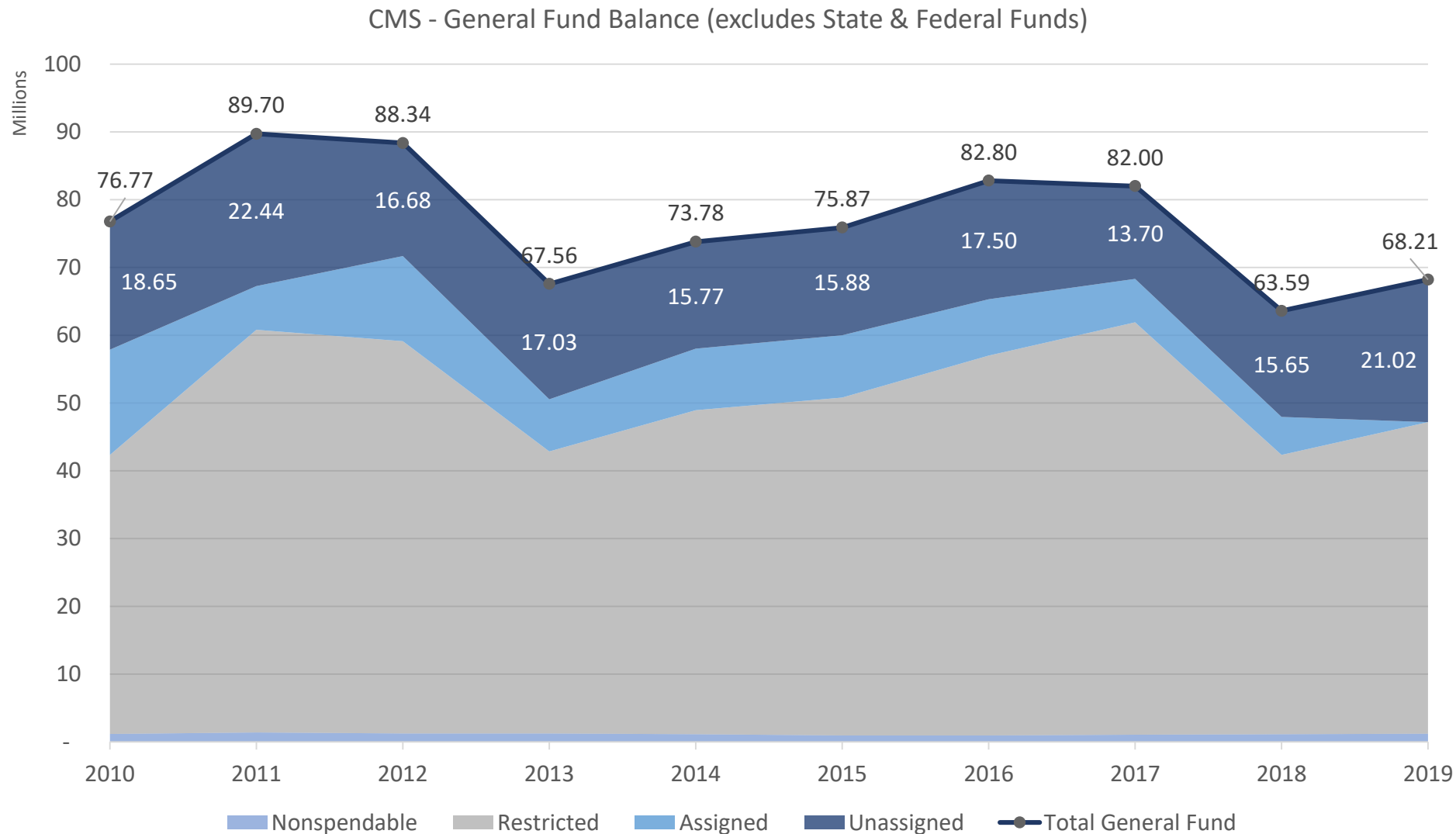
County Responsibility for  
Facility Requirements  
(N.C.G.S 115C -408 (b))

Fiscal Year	Budget	Total required to fund for facility maintenance and Debt Service	Difference
2018	\$629,201,563	\$313,632,486	\$315,569,077
2019	630,008,412	291,410,599	338,597,813
2020	690,865,783	321,493,524	369,372,259
2021	717,259,756	333,558,385	383,701,371

Estimate if County  
Entered into Dispute  
Resolution  
(N.C.G.S 115C -431 (b1))

Fiscal Year	Budget	Total required to fund if dispute resolution formula is used for operating	Difference
2018	\$629,201,563	\$628,007,449	\$1,194,114
2019	630,008,412	607,378,380	22,630,032
2020	690,865,783	672,199,180	18,666,603
2021	717,259,756	714,440,595	2,819,162

# CMS Fund Balance



**Non-spendable** – inventories | **Restricted** - insurance claims, encumbrances, accounts receivable | **Assigned** - subsequent years expenditures

- CMS had an unassigned fund balance of \$21M at the end of FY2019
- State funds revert to the State at the end of the year
- The Local Government Commission does not prescribe a minimum fund balance for Schools
- Counties cannot make schools appropriate fund balance, but it can be taken into consideration with determining the budget

# Key Takeaways

- The County funds a significant level of operating funding for CMS, outranking most counties in the State on a per-pupil basis
- Comparisons to other counties do not tell the whole story
- Enrollments are in a state of fluctuation due COVID19 and may have an impact on funding for FY2022
- There is a significant difference between the funding that counties are required to provide for facilities and the minimum that would result from a potential dispute resolution
- Because of law changes in 2018 dispute resolutions would result in higher minimums than if the county funded facility requirements alone
- The County has exceeded both estimates
- Higher operating funding in prior years increases the minimum that would result from a potential dispute resolution (**Under dispute resolution laws, it is easy to fund operating for schools but harder to reduce**)
- CMS fund balance can be taken into consideration in determining funding

Three books are stacked horizontally on the right side of the image. The top book has a light blue cover, the middle one has a red cover, and the bottom one has a dark blue cover. The pages are visible and appear aged. The background is a solid teal color.

# Options for Influencing Education Policy



# Tools You Can Use



Restricted Contingency



Funding Formulas



Purpose/ Function Codes



Joint Technical Workgroup



State Involvement

# Restricted Contingency



- Funding is not appropriated to CMS until it is approved by the Board
- Has been utilized to hold new funding until some guarantee can be made regarding the use of funds
- If existing funding was held in restricted contingency, it would be a reduction in funding to CMS until the funds are made available
- The restriction could potentially be unenforceable if a dispute resolution results in a higher allocation

## Restricted Contingency for CMS

2007 - \$4.9M High School Challenge (final year of a 3-year, \$14.5M investment)

&

\$500K decentralizing / weighted pupil formula study

2013 – \$18.6M for 3% salary increase

2015 – \$7.3M for locally-funded CMS employee salary increases

2019 – \$4.6M for security upgrades

2021 – \$11M for \$15/hr. minimum wage

# Funding Formulas



- Fifteen counties in FY2020 reported having some form of school funding formula
- Mix of formalized and informal
- Often as a starting-point
- Not always adopted
- Typical variables
  - Percentage of property tax only
  - Percentage of property and sales tax, and/or other discretionary funding
  - Based on per-pupil and inflation

# Funding Formula to Influence Performance



Base funding designed to achieve minimum funding from a potential dispute resolution

- Cost per-pupil based on ADM
- Inflated by Employment Cost Index



Additional funding

- Achieving performance standards
- or
- Strategies to achieve performance standards

## Considerations

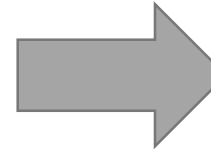
- Base funding is likely to increase each year
- Additional funding would increase the future base
- Funding provide for strategies intended to improve performance would increase the future base (even if performance was not met)
- To be effective, formula would need to be maintained overtime regardless of revenue growth

# Purpose/Function Code



## Mecklenburg County FY2021 Budget Ordinance Section XXVI.

The appropriations to the Charlotte-Mecklenburg Board of Education have been allocated by purpose, function and project as defined in the uniform budget format, as shown on Schedule No 2. The **Charlotte- Mecklenburg Board of Education must obtain the approval of the Board** for any amendment to the Board of Education's budget which would (a) increase or decrease appropriation for capital outlay approved by the Board of Commissioners for such projects as listed in G.S. 115C-426(f)(1) or (2), or (b) **increase or decrease the amount of other County appropriations allocated to a purpose or function by more than ten (10%) percent.**



MECKLENBURG COUNTY, NORTH CAROLINA CHARLOTTE-MECKLENBURG BOARD OF EDUCATION PROPOSED BUDGET FISCAL YEAR 2020-21		
5000	<b>Instructional Services</b>	
5100	Regular Instructional	168,307,630
5200	Special Populations	26,979,163
5300	Alternative Programs	18,201,376
5400	School Leadership Services	26,311,603
5500	Co-Curricular	5,391,808
5800	School-Based Support	24,479,349
	Subtotal Instructional Services	269,670,929
6000	<b>System-Wide Support Services</b>	
6100	Support and Development	11,561,015
6200	Special Population Support and Development	1,742,108
6300	Alternative Programs Support and Development	1,725,309
6400	Technology Support	15,214,270
6500	Operational Support	100,085,160
6600	Financial and Human Resource Services	22,033,192
6700	Accountability	5,027,417
6800	System-wide Pupil Support	3,835,890
6900	Policy, Leadership and Public Relations	13,805,828
	Subtotal System-Wide Support Services	175,030,189
7000	<b>Ancillary Services</b>	
7100	Community Services	-
7200	Nutrition Services	45,187
	Subtotal Ancillary Services	45,187
8000	<b>Non-Programmed Charges</b>	
8100	Payments to Charter Schools	69,186,243
8300	Debt Service	-
	Subtotal Non-Programmed Charges	69,186,243
	<b>TOTAL OPERATING EXPENDITURES</b>	513,932,548
9000	<b>Capital Outlay</b>	
9100	Category I Projects	4,960,000
9200	Category II Projects	-
9300	Category III Projects	-
	<b>TOTAL CAPITAL OUTLAY</b>	4,960,000

See attachments: DPI Descriptions  
& County Funding Vs. CMS Audit



# Budget Format to Influence Education



## Limited Flexibility for Existing Funds

- Realign existing funding in a way that reducing flexibility by allocating most funding into a few lines
- County funds could be spent completely from the Purpose/Function where they are allocated
- Shifting county funds to another Purpose/Function would require Board Approval
- Flexibility could be granted based on specific strategies
- Potentially to have drastic impact on some CMS positions where county funds are leveraged instead of State

## Limited Flexibility for New Funds

- Combined with a funding formula to provide minimal funding calculated based on ADM and Employee Cost Index
- Request that any additional funding is tied to specific strategies and aligned to Purpose/Function
- May add some level of control to ensure funds are spent as intended

# Limited Flexibility of Existing Funds Example

- Adopted budget allocating funding mostly in Regular Instruction
- CMS could spend based on the allocation along with State and Federal funds
- Approval would be required to spend county dollars from other lines

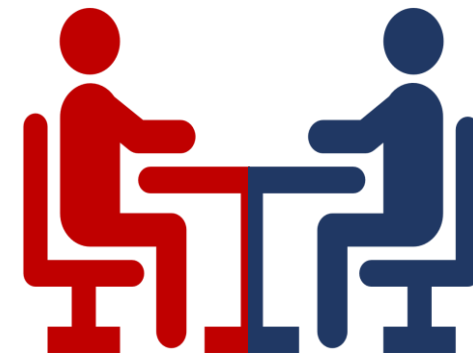
Instructional Services		2021 Budget	Example
Regular Instructional		\$179,307,630	\$310,480,606
Special Populations		26,979,163	26,979,163
Alternative Programs		18,201,376	18,201,376
School Leadership Services		26,311,603	
Co-Curricular		5,391,808	
School-Based Support		24,479,349	
Subtotal Instructional Services		280,670,929	355,661,145
System-Wide Support Services		2021 Budget	Example
Support and Development		11,561,015	
Special Population Support and Development		1,742,108	
Alternative Programs Support and Development		1,725,309	
Technology Support		15,214,270	
Operational Support		100,085,160	100,085,160
Financial and Human Resource Services		22,033,192	
Accountability		5,027,417	
System-wide Pupil Support		3,835,890	
Policy, Leadership and Public Relations		13,805,828	
Subtotal System-Wide Support Services		175,030,189	100,085,160
Ancillary Services		2021 Budget	Example
Nutrition Services		45,187	
Subtotal Ancillary Services		45,187	-
Non-Programmed Charges		2021 Budget	Example
Payments to Charter Schools		69,186,243	69,186,243
Subtotal Non-Programmed Charges		69,186,243	69,186,243
Total Operating		\$524,932,548	\$524,932,548

# Joint- Technical Workgroup



- Establish a joint workgroup with key staff from the County and CMS tasked with developing options to achieve the desired goals
  - Options realigning existing resources
  - Options that require new funding
- Budget, Strategic Planning, and Finance
- Balanced participation
- Adopt clear rules for sharing information in a timely manner

The board of county commissioners shall have full authority to call for, and the board of education shall have the duty to make available to the board of county commissioners, upon request, all books, records, audit reports, and other information bearing on the financial operation of the local school administrative unit (G.S. 115c-429(c))



# Summary

- Restricted contingency can be used to an extent but may be problematic to restrict existing funding if it is more than what a dispute resolution would require
- A funding formula can have potential to influence education policy over time, but it is important to maintain the minimum funding
- Flexibility can be reducing through purpose/function allocation
- Collaboration could produce options for consideration if it is balanced and information is shared
- A combination of multiple approaches might be effective